
Industry Dialogue on xoserve Services and their Funding

Minutes of Workgroup Meeting

10:00 Wednesday 8 November 2006

Attendees

Tim Davis	TD	Joint Office
Collette Baldwin	CB	E.ON UK
Chris Smith	CS	xoserve
Claire Walsh	CW	BGT
Gareth Evans	GE	Total Gas and Power
John Bradley	JB	Joint Office
Jessica Hunt	JH	Ofgem
Joel Martin (aborted)	JM	Scotia Gas Networks
Laura Doherty	LD	RWE Npower
Louise Wilks	LW	National Grid Distribution
Marcus Stewart	MS	National Grid Distribution
Nick Morris	NM	Xoserve
Nicola Rigby	NR	National Grid
Nick Salter	NS	xoserve
Phil Broom	PB	Gaz de France ESS
Pete Ratledge	PR	RWE Npower
Robert Cameron-Higgs	RCH	Northern Gas Networks
Steve Ladle	SL	Gemserv
Steve Mackay	SM	Ofgem
Shelley Rouse	SR	Statoil
Simon Trivella	ST	Wales and West Utilities

1.0 Introduction

TD welcomed attendees to the meeting.

1.1 Minutes of Last Meeting

These were agreed.

1.2 Actions Arising

No shipper or Transporter volunteers for the 5 December presentation to Ofgem have been forthcoming to date.

2.0 Cost Implications of Service Lines

CS presented a summary of high level assumptions reflecting discussion at the last meeting. Shippers suggested the assumption should be that iGT processes were included, as opposed not being precluded.

SL expressed caution about the costs involved in committing to a flexible design. CS acknowledged the point and said xoserve were looking to optimise costs over the expected lifetime rather than minimise development costs alone.

PR asked about growth assumptions, and PB raised AMR as a specific example of growth. CS stated that xoserve were assuming growth but that domestic Supply Points would not be daily metered. PB suggested costs being produced for a base

case scenario with no take-up of AMR and at least one scenario that assumes widespread AMR take-up.

On storage, xoserve were asked if they could share the existing experience on which assumptions had been based, which CS agreed to consider.

Members asked about the impact of any further DN sales, or an iGT becoming absorbed into a DN. NS responded that systems operate at LDZ level, so no difficulties were anticipated if the LDZ structure was unchanged.

TD suggested that providing a set of high level assumptions on key cost drivers might be helpful e.g. the retention of RbD, consistent obligations across DNs (no migration to Individual network Codes). CS indicated that xoserve's base case assumptions did not include:

- a. substantial AMR take-up,
- b. incorporation of IGTs,
- c. abandonment of RbD, and
- d. sub-division of LDZs.

PB reiterated that some work should be conducted on alternative scenarios, and CW suggested that obligations on theft of gas might change.

NS agreed to detail the assumptions and work on some scenarios.

Action

3.0 Principles and Governance of User Pays

CS presented some thoughts on behalf of xoserve. Shippers were concerned about the prospect of profit for providing additional services given that no other service provider would be possible. JH stated that adjustments to core revenue would be made if additional services were introduced and hoped that this would provide comfort to Users.

JH clarified that the principle of allocating capacity to those who value it most was associated with additional services, not core services, and that Ofgem were not envisaging auctions. SL saw this principle as consistent with the approach a number of software providers take whereby interested customers enter into a form of cost sharing agreement – a User Group model.

CS outlined two models: Model A left Shippers to contract with GTs while Model B involved Shippers dealing directly with xoserve for additional services they may require. CW enquired how additional services would be identified. JH stated that the xoserve bill would be in two parts, although it wasn't clear at this stage how the apportionment would be made amongst DNs.

CS stated that Model B was already used at a low level. CW and PB expressed a preference for Model B in the case of additional services which were not necessarily offered to others, and ST agreed with this from a DN perspective. JH acknowledged this preference but believed it would introduce complications for price controls as xoserve would be using regulated assets to operate the additional services – raising the prospect of double funding.

CS outlined potential principles for classes of services, starting with new enduring services. SL asked whether the costs xoserve aimed to recover would include, for example, User testing costs. CS stated that it would. CS clarified that services, that result from a UNC Modification Proposal, were not intended to be captured under this heading.

Three of the routes that could be followed were:

- a. An approach is made by the User and the service is then provided to that User exclusively.
- b. User Group sponsoring a change or series of changes on the basis of sharing the costs as agreed by the User Group members.
- c. Class 3 UK Link Modification resulting, if successful, in a new service being provided to, and paid for, by all Users.

JH expressed the view that the UNC was not necessarily the route that should be followed – for example an iGT might want a service.

On one-off services, JH stated that if these grew to more than the current de minimis limit of 2.5 %, there could be price control implications. NS suggested that a one-off service might be through the User Group approach.

On existing services, CS raised the concept of a “key stakeholder” as being the Users that paid for a service. On a transfer, for example, the key stakeholders would be the existing and incoming shipper. GE did not believe the suggested discretion criteria would ever apply and so should be removed. CW, however, felt that there was some value in retaining that criteria.

On change to service costs, CS clarified that this was meant to include changes prompted by the approval of a UNC Modification Proposal. CW asked whether these solely applied to implementation costs, and CS stated that it would also include ongoing costs.

PB asked whether benchmarking could be used to determine whether xoserve prices were cost reflective. Shippers were not necessarily seeking full transparency but wanted the ability to challenge xoserve’s costs. TD pointed out that a Class 3 Modification Route would provide a challenge in so far as Ofgem would need to approve or reject the UNC Proposal. GE recognised this but did not believe Users should need to use this route.

TD asked whether members would like to see a charging methodology statement that set out the principles of how xoserve would set costs when providing additional services? The Work Group responded that such a statement would be helpful.

JH confirmed that replacement of life-expired computer systems should not be covered under the “user pays” principle. This was particularly relevant as UK Link system replacement is in this category.

4.0 Inputs Required for Next Meeting

It was agreed that the next meeting should apply the principles discussed to specific services, in order to test them.

xoserve would present a summary of the main cost drivers and expand upon the principles proposed.

GE agreed to convene a meeting of Shippers to determine the input to the Ofgem presentation and respond on the issues discussed.

5.0 Diary Planning for Work Group

22 November 10:00 (Elexon)

12 December 10:00 (Elexon)

10 January 10:00 (51 Homer Road, Solihull)